# 2008 ANNUAL REPORT

CEDF

**Investing in the North**

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# TRANSMITTAL

CEDF

March 31, 2008

Minister Responsible for the
Communities Economic Development Fund
Province of Manitoba
Room 344 Legislative Building
Winnipeg MB R3C 0V8

Dear Sir:

It is my privilege, on behalf of my fellow directors on the Board of the Communities Economic Development Fund, to forward the Fund's annual report for the fiscal year ended March 31st, 2008.

Respectfully submitted,

H Westdal

Harold Westdal
Chairperson

## DIRECTORS AND OFFICERS

Minister Responsible: The Honourable Oscar Lathlin

Board of Directors:

| | | |
|---|---|---|
| Chairperson: | Harold Westdal | Winnipeg |
| Directors: | Linda Ballantyne | Grand Rapids |
| | Rob Barbe | Winnipegosis |
| | Darlene Beck | Cross Lake |
| | Bill Cordell | Thompson |
| | Gavin Lawrie | Churchill |
| | Bob Veito | The Pas |
| | John R. Yellowback | God's River |

## OFFICERS:

General Manager & CEO: R. Gordon Wakeling

CFO & Manager of Fisheries Loans Program: Rajinder S. Thethy

## HEAD OFFICE

100 - 23 Station Road
Thompson, Manitoba R8N 0N6
Telephone: (204) 778-4138
Fax: (204) 778-4313
Toll Free: 1-800-561-4315 (In Manitoba only)

## FIELD OFFICES:

## BUSINESS LOANS:

3 – 1000 Main Street, Swan River, MB R0L 1Z0

## FISHERIES LOANS:

Box 1277, Hwy 9 & Colville Drive, Gimli, MB R0C 1B0
Box 10548, Opaskwayak, MB R0B 2J0
Bay 8, 1680 Ellice Avenue, Winnipeg, MB R3H 0Z2

# CORPORATE PROFILE

The Communities Economic Development Fund is a Manitoba Crown Corporation, incorporated under the Communities Economic Development Fund Act (C155 of the Consolidated Statutes of Manitoba).

**LEGISLATED MANDATE:**

The Object of the Fund, as stated in section 3(1) of the Act is as follows:
*"The object of the fund is to encourage economic development*
*(a) In Northern Manitoba, as defined by the Lieutenant Governor in Council by regulation;*
*(b) subject to the approval of the Lieutenant Governor in Council, in the fishing industry in the province, by acting as a lending authority and administering a loan program with respect thereto; and*
*(c) in conjunction with financial assistance provided by the Government of Canada under any economic development program to assist aboriginal people in the province outside The City of Winnipeg; with particular emphasis on the needs of small business enterprises and community development corporations."*

Section 3(2) of the Act states it shall do so through the provision of "financial and other forms of assistance":
*"The fund may provide financial assistance and other assistance, as set out in subsection (3), to assist in the establishment of new economic enterprises and the development of existing economic enterprises."*

The Act defines financial assistance as:
*""financial assistance" includes a loan or guarantee, a lease of personal property or real property, the purchase or sale of shares, assets or securities of a corporation, and the underwriting of the securities of a corporation;"*

Other forms of assistance are defined in section 3(3) of the Act:
*"The fund may provide, with or without charge,*
*(a) information and advice respecting the techniques, methods and practices required for the successful administration of economic enterprises;*
*b) training for individuals, including employees, managers and directors, in an economic enterprise; and*
*(c) conferences, seminars and other meetings for the promotion of good management practices in economic enterprises."*

**PROGRAMS:**

In carrying out its mandate, the Fund provides loans and guarantees to small to medium enterprises and to the commercial fishery through its Business Loans and Fisheries Loans programs. It also provides support for community economic development through its CED programming – including the TEAM program and delivery of Rural Economic Development Initiative (REDI) programs. REDI programs are delivered under a Memo of Understanding (MOU) with Manitoba Agriculture, Food, and Rural Initiatives.

In 2008, the Fund will reach the end of its current five year plan and start a new planning cycle. The 5 Year Plan–2003 to 2008 was based in the principle–CEDF as a *Micro Enterprise Institution*, a working title which aligned with both the environment in which CEDF currently operates, and with its continuing need to reduce economic dependency on government. A common definition when using the term *Micro Enterprise Institution* versus a 'program' is that the organization covers all its operating costs with the exception of interest on money-borrowed to carry out its lending programs. CEDF is nearing this definition. In 2008, it reported the following:

| | **2008** | 2007 |
|---|---|---|
| Net Cost of Operations | $1,514,456 | $1,514,160 |
| Interest Paid | $1,345,266 | $1,224,175 |
| Net Deficit after Interest Costs | $169,190 | $289,995 |

In addition to approaching a lower net cost, CEDF delivered its operations under budget for the 9th consecutive year; a core budget which has remained unchanged since 2001. It would be easy to deliver this type of return by reducing service to government or clients. CEDF has, however, done neither.

The core elements of the strategic plan have involved revenue generation and cost reduction strategies. Lead among these has been:

- Expanding portfolios to increase income.
- Managing funds for both clients and government which reduces CEDF treasury costs.
- Reshaping its Capital Management and Capital Supply to reduce costs.
- Revenue Generation Contracts.
- Seeking business integration opportunities in major cost areas.

Several of the ideas posted in the plan proved difficult to achieve or counter to established policy within government, but significant gains have been made and continue to be made.

One of the most significant projects undertaken this year under the category `business integration` has been to commence construction of head office facilities in Thompson, Manitoba. As a leading provincial economic development entity, CEDF recognizes the value of its northern location. It is one of very few Crown entities with a head office in the region. Building its corporate headquarters has been seen in the region as recommitment to the principles of the Northern Development Strategy – decision centres about northern issues located in the northern region of Manitoba. The project has been challenging. CEDF has not approached government for added resources and all costs will be carried within its existing budget allocation. At a time of rising construction costs, CEDF has been able to negotiate a favourable fixed price contract using local contractors. At time of writing, the building is nearing completion. Its progress can be seen at our website www.cedf.mb.ca.

As noted, the core of CEDF`s strategic plan has been to operate with less dependence on government with the provisos of not reducing service or service quality to either government or program clients. CEDF`s mandate is to encourage economic development in Northern Manitoba through the delivery of programs and through general assistance to government on economic initiatives. It assists northern clients with feasibility analysis on development projects and provides other logistical and support services. In addition, CEDF acts as a resource to government on Northern Development policy and issues. The Fund continues to deliver Rural Economic Development Initiative (REDI) programs in the northeast under an MOU with Manitoba Agriculture, Food, and Rural Initiatives.

During 2008, CEDF continued program delivery as noted below and worked on several key projects

with government, including examining biofuel opportunities in the region, assisting with a working group resulting in the formation of the First Peoples Economic Growth Fund, several smaller economic project feasibilities, and in developing context for northern development policy.

The Fund delivers programs and services under four departments. Each is organized as a strategic business unit.

**ADMINISTRATION** - manages all accounting, finance, and management information services for the Fund, in addition to managing the Fund's treasury.

**BUSINESS LOANS** - provides loans and guarantees to economic enterprises.

**FISHERIES LOANS** - provides loans to the commercial fishing industry.

**COMMUNITY ECONOMIC DEVELOPMENT** - delivers community level programming to assist northern communities in expanding economic opportunities.

Each business unit is measured on key objectives, which are noted below with outcomes:

## ADMINISTRATION

- **Budget management** – *As noted, CEDF was on budget for the eighth consecutive year at the same level. Core budgets remain unchanged since 2001.*
- **Timely reporting of performance and regulatory reporting** - *With the exception of its annual report, the Fund has produced its statements on time and filed its quarterly reports as required under legislation.*
- **Information system to assist "line" programs** - *The department undertook two major IT initiatives this year. CEDF changed its accounting software to address issues in the new bank instrument clearing regulations. In addition, CEDF contracted to rewrite its loan ledger systems. Externally the changes would appear seamless, and Management recognizes the efforts of staff in achieving this `illusion`.*

Another change in organization was precipitated in 2008 as CFO Raj Thethy left CEDF to take up new opportunities in the health care area. Raj was replaced by Oswald Sawh who had previously worked in CEDF`s community programs. The unit has 1.5 staff years in addition to the CFO (who also has responsibility for the Fisheries Loan Program). The treasury function is to provide adequate capital to carry out lending activity and to manage accounts with the Province. CEDF borrows capital for its programs from the Province. It can structure its borrowing to maximize revenues. The key objectives and outcomes of Treasury Management are:

- Obtain capital at rates enabling the Fund to offer stable rates at market levels – *the Fund routinely confirms its rates in the market place and offers loans at competitive rates.*
- Loan margin budget target – the budget objective for fiscal 2008 was 2.5% - *the Fund achieved net returns of 3.08% on portfolio. The positive variance is due in large part to income from trust accounts under management.*

## BUSINESS LOAN PROGRAM

The Business Loan Program is a source of capital in Northern Manitoba, providing loans at a risk threshold higher than retail lending, offering the opportunity to create opportunities and services in communities that might not otherwise be available. The Fund has active loans in 47 communities in the region.

**Program Objectives:**

- $5 million in annual loan activity – *during fiscal 2008 the Fund approved $1,687,381 in new loans, a significant decline in activity which CEDF noted first in 2006. The decline is attributable to two key sectors. The program is demand driven. Reduced activity in the forestry sector continues to be a concern for the Fund in terms of achieving activity goals.*
- Account management to reduce loan losses – *for the current fiscal year, CEDF's loan loss provision was $427,803 or 10.35% of loan activity which, in conjunction with fisheries loans activity, is within budget and within targeted loan loss limits.*
- Examine new financial products – *the Fund began to offer bid bonding as a new product this year. Uptake for the product has been limited, but CEDF will work with northern contractors in the current year to examine the need and methods of expanding this service.*

During the year, CEDF completed staff re-assignments reducing its overhead in the Business Loan Program and redistributing its portfolio among consultants to balance work flow.

## FISHERIES LOANS PROGRAM

The Fisheries Loan program provides a source of capital to the commercial fishing industry in Manitoba. Fishers are often restricted from conventional capital sources due to the seasonal nature of the business. CEDF is able to offer financing at competitive rates, with seasonal payments made by direct deduction from deliveries through FFMC. The relationship with FFMC is crucial to the program as it ensures loan payments can be received (especially in areas which do not enjoy conventional banking services) reducing the risk of default. Current federal discussions to remove the single desk selling mandate of FFMC may threaten CEDF's ability to provide loans in areas that are 'deregulated'. CEDF continues to watch development in this area closely. Strong harvests on Lake Winnipeg continued in 2008, supporting strong demand for loans and good repayment. The program, as noted in the attached Financial Statements has performed well within budget and loan losses have remained low. As this fishery represents a significant portion of the portfolio and of activity, CEDF continues to monitor the lake and to make lending decisions which recognize the inevitability of a downturn in harvest.

**Program Objectives:**

- Lending activity $4.5 million annually – *the program offered $4.48 million in new loans this year.*
- Successful loan management practice – *Management made a loan loss provision this year of $200,000 or 4.46% of lending. As noted under the Business Loan Program, the combined loan loss provision for the programs are within budget.*

## COMMUNITY PROGRAMS

While CEDF is considered primarily as a lender, CEDF's Community Programs reflect the other facet of its operations, "encouraging economic development". CEDF provides basic assistance to entrepreneurs; it delivers REDI programming in North Eastern Manitoba under contract to MAFRI, and during this year has worked extensively with the Northern Forest Diversification Centre to try to develop a micro-enterprise program to support communities and harvesters.

In its community work, CEDF provides supports to Community Development Corporations throughout the region, assisting in planning, and in business development.

CEDF is in the process of re-organizing this division as part of a larger strategic direction, and as a result its goals are being redefined. During the year, the focus has been on the Non-Timber Forest Products sector, however, it continues to assist both entrepreneurs and communities as a pathfinder to capital and a resource in planning. During 2008/2009, CEDF expects to complete re-branding and re-tasking of this unit.

# LOANS APPROVED

| AMOUNT | NAME | BUSINESS | LOCATION | RATE | TERM |
|---|---|---|---|---|---|
| $193,350 | 4219482 Manitoba Ltd. (Ushkowski) | Long Haul Trucking | Dauphin Mb | 6.75% | 120 |
| $50,000 | William McIvor | Tow Truck | Cross Lake | 8.38% | 48 |
| $16,374 | Nelson & Debra Rusk | Playground Equipment | Birch River | 8.38% | 36 |
| $98,635 | Norway House Fishermen's Co-op | Gas Bar/Confectionary | Norway House | 7.38% | 60 |
| $119,768 | Goodman's Landing Fisheries | Fishing Station | Hodgson | 8.38% | 48 |
| $73,020 | McCullough Logging Inc. | Logging/Trucking | Swan River | 8.88% | 60 |
| $15,000 | Sweeny Enterprises Ltd. | Aircraft Maintenance | Thompson | 8.38% | 36 |
| $120,000 | Roy Winter | Construction | Thompson | 7.88% | 3 |
| $33,995 | Steve Rose | Minute Muffler | Thompson | 8.25% | 6 |
| $9,128 | Dennis B Rathgeber | Video/Photography | Thompson | 8.25% | 36 |
| $50,000 | Channel Development Corp. | Winery | Flin Flon | 7.25% | 12 |
| $25,000 | 4833148 Manitoba Ltd. (Bartlett) | Lodge | Snow Lake | 7.25% | 60 |
| $44,541 | Jonathon D. Albert | Boat Manufacturing | Norway House | 8.88% | 12 |
| $66,035 | Abby Klyne | Confectionary | Easterville | 8.38% | 48 |
| $15,000 | Scott Green | Trucking | The Pas | 8.75% | 12 |
| $30,875 | Cindy Jonasson | Greenhouse | Wabowden | 8.50% | 60 |
| $70,535 | 5558744 Manitoba Ltd.(Dawson Bay) | Fish Packing Plant/Agent | Mafeking | 8 50% | 60 |
| $42,460 | 4562900 Manitoba Ltd. (Kooistra) | Trucking | Durban | 8.50% | 24 |
| $42,400 | Keith Larkins | Log Hauling | The Pas | 8.50% | 48 |
| $15,000 | Robert Bracegirdle | Forestry - Loading/Hauling | The Pas | 8.50% | 12 |
| $10,575 | Eileen Rock | Floral/Giftware | The Pas | 8.50% | 36 |
| $165,438 | Manto Sipi Cree Nation | Winter Road Construction | Gods River | 8.00% | 36 |
| $135,000 | Mistic Hauling | Forestry | Wabowden | 8.50% | 4 |
| $20,725 | Mud Lake Logging Ltd. | Logging | Wabowden | 8.25% | 12 |
| $56,035 | Mud Lake Logging Ltd. | Logging | Wabowden | 8.28% | 12 |
| $128,492 | North Interlake Contractors | Construction | Riverton | 8.41% | 36 |
| $40,000 | Robert Bracegirdle | Logging | The Pas | 8.29% | 36 |
| $1,687,381 | | | | | |

# HISTORICAL
## BUSINESS LOANS/JOBS CREATED

| YEAR APPROVED | AMOUNT | APPLICATIONS APPROVED | JOBS CREATED AND/OR RETAINED |
|---|---|---|---|
| 1972 - 1979 | $5,601,129 | 256 | 757 |
| 1980 | 1,982,791 | 37 | 144 |
| 1981 | 1,180,740 | 34 | 120 |
| 1982 | 2,800,140 | 46 | 176 |
| 1983 | 2,138,275 | 31 | 138 |
| 1984 | 2,080,595 | 49 | 144 |
| 1985 | 2,326,548 | 63 | 172 |
| 1986 | 2,909,735 | 43 | 159 |
| 1987 | 3,573,294 | 66 | 215 |
| 1988 | 3,550,050 | 70 | 210 |
| 1989 | 725,243 | 22 | 31 |
| 1990 | 1,681,090 | 38 | 136 |
| 1991 | 1,737,344 | 30 | 80 |
| 1992 | 1,183,686 | 19 | 102 |
| 1993 | 5,406,375 | 36 | 120 |
| 1994 | 1,427,220 | 21 | 88 |
| 1995 | 4,811,247 | 51 | 135 |
| 1996 | 6,134,635 | 64 | 252 |
| 1997 | 4,321,829 | 53 | 198 |
| 1998 | 4,387,457 | 45 | 230 |
| 1999 | 5,188,498 | 41 | 178 |
| 2000 | 2,062,664 | 36 | 165 |
| 2001 | 2,797,419 | 28 | 170 |
| 2002 | 2,787,386 | 28 | 166 |
| 2003 | 5,174,099 | 39 | 213 |
| 2004 | 4,721,154 | 41 | 267 |
| 2005 | 2,834,888 | 33 | 359 |
| 2006 | 4,961,588 | 35 | 155 |
| 2007 | 4,123,999 | 31 | 233 |
| 2008 | 1,687,381 | 27 | 242 |
| | **$96,298,499** | **1,413** | **5,755** |

# PERFORMANCE DATA

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| No. of Loans Approved - Business | 27 | 31 | 35 | 33 | 41 |
| Dollar Value - Business | 1,687,381 | 4,123,999 | 4,961,588 | 2,834,888 | 4,721,154 |
| No. of Loans Approved - TEAM | 0 | 0 | 1 | 1 | 2 |
| Dollar Value - TEAM | 0 | 0 | 1,352 | 3,000 | 5,038 |
| Dollar Value - Fish Approvals | 4,290,014 | 4,447,258 | 3,587,401 | 3,824,575 | 4,677,215 |
| No. of Active Loans - Business | 141 | 128 | 125 | 133 | 149 |
| No. of Active Loans - TEAM | 0 | 3 | 18 | 21 | 21 |
| No. of Active Loans - Fish | 1,309 | 1,154 | 1,180 | 1,207 | 1,191 |
| Portfolio Value - Total | 26,306,974 | 26,272,414 | 24,042,119 | 25,090,244 | 26,729,480 |
| Bad Debt Expense - Business | 706,893 | 427,803 | 369,874 | 473,308 | 619,715 |
| As a percentage of Approvals | 41.89% | 10.37% | 7.45% | 16.70% | 13.13% |
| Bad Debt Expense - Fish | 0 | 200,000 | 131,500 | 86,662 | 0 |
| As a percentage of Approvals | 0% | 4.50% | 3.66% | 2.27% | 0% |
| Total Subsidy | 1,514,164 | 1,514,164 | 1,513,839 | 1,514,322 | 1,489,762 |
| Subsidy as a % of Approvals | 25.33% | 17.67% | 17.70% | 22.73% | 15.84% |

# ECONOMIC IMPACT

The Fund continues to face numerous challenges to maintain its primary function and at the same time deliver a professionally managed development agency for economic expansion including the number of jobs created and maintained.

We present the following data which reflects our impact on the regional economy within our mandated area.

| JOBS | |
|---|---|
| Number of persons directly employed in businesses supported by Fund loans:[1] | 767 |
| Number of fishers supported by Fund loans:[2] | 1,309 |
| Total Employment: | 2,076 |

| REVENUES | |
|---|---|
| Total revenue of Business Loan clients:[1] | $49,602,280 |
| Total revenues of Fisheries Loan clients (before final payments and transfer income):[2] | 18,765,092 |
| Total Revenue | $68,367,372 |
| Direct Wages Paid[1] | $13,155,686 |

[1]Data is drawn from material financial statement provided by clients and from on-site observations by Fund staff during the annual account review.
[2]Data is drawn from payments provided to Fund and from active accounts within loan ledger.

# AUDITORS' REPORT

BDO Dunwoody LLP/s.r.l.
Chartered Accountants and Advisors
Comptables agréés et conseillers

700 - 200 Graham Avenue
Winnipeg Manitoba Canada R3C 4L5
Telephone/Téléphone: (204) 956-7200
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www.bdo.ca

To the Directors of
COMMUNITIES ECONOMIC DEVELOPMENT FUND

We have audited the statement of financial position of COMMUNITIES ECONOMIC DEVELOPMENT FUND as at March 31, 2008 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants

Winnipeg, Manitoba
May 14, 2008

BDO Dunwoody LLP is a Limited Liability Partnership registered in Ontario
BDO Dunwoody s.r.l. est une société à responsabilité limitée constituée en Ontario

# STATEMENT OF FINANCIAL POSITION

| For the year ended March 31 | **2008** | 2007 |
|---|---|---|
| **ASSETS** | | |
| Current Assets | | |
| Cash | $ 266,042 | $ 625,411 |
| Trust deposits - Province of Manitoba | 281,197 | 7,627 |
| Due from the Province of Manitoba (Note 3) | 1,970,351 | 2,104,903 |
| Accounts receivable | 55,611 | 106,294 |
| Property held for resale | 4,513 | 4,879 |
| Prepaid expenses | 4,707 | 13,991 |
| | 2,582,421 | 2,863,105 |
| Loans receivable (Note 4) | 21,261,404 | 21,393,330 |
| Capital assets (Note 5) | 105,638 | 14,834 |
| | $ 23,949,463 | $ 24,271,269 |
| **LIABILITIES** | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | $ 717,741 | $ 1,063,168 |
| Interest payable to the Province of Manitoba | 512,697 | 405,198 |
| | 1,230,438 | 1,468,366 |
| Commitments (Note 6) | | |
| Accrued pension liability | 1,895,420 | 1,765,596 |
| Advance by the Province of Manitoba (Note 7) | 20,823,605 | 21,037,307 |
| | $ 23,949,463 | $ 24,271,269 |

Approved on behalf of the Board

Director:

Director:

# STATEMENT OF OPERATIONS

| For the year ended March 31 | **2008** | 2007 |
|---|---|---|
| **Revenue** | | |
| Loan interest | | |
| TEAM | $ 136 | $ 3,150 |
| Business program | 771,127 | 866,176 |
| Fisheries program | 1,243,137 | 991,478 |
| Investment income | 52,086 | 60,764 |
| | 2,066,486 | 1,921,568 |
| **Cost of Funds** | | |
| Interest paid to the Province of Manitoba | | |
| Business program | 530,052 | 480,213 |
| Life insurance | 77,924 | 73,421 |
| Trust line of credit | 107,596 | 105,555 |
| Fisheries program | 616,693 | 564,986 |
| Other | 13,001 | - |
| | 1,345,266 | 1,224,175 |
| **Gross margin** | 721,220 | 697,393 |
| **Operating expenditures** (Page 25) | 1,629,197 | 1,636,676 |
| | (907,977) | (939,283) |
| **Other income** - administration fees | 100,414 | 52,926 |
| **Deficiency of revenue over expenditures before provision for doubtful loans** | (807,563) | (886,357) |
| **Provision for doubtful loans** - regular operations | 706,893 | 627,803 |
| **Deficiency of revenue over expenditures before subsidy due from the Province of Manitoba** | (1,514,456) | (1,514,160) |
| **Subsidy due from the Province of Manitoba** | 1,514,456 | 1,514,160 |
| **Excess of revenue over expenditures for the year** | $ - | $ - |

# STATEMENT OF CASH FLOWS

| For the year ended March 31 | 2008 | 2007 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Deficiency before subsidy | $ (1,514,456) | $ (1,514,160) |
| Adjustments for | | |
| Amortization of capital assets | 6,019 | 6,703 |
| Provision for doubtful loans | 706,893 | 627,803 |
| | (801,544) | (879,654) |
| Accounts receivable | 50,683 | (42,216) |
| Accrued interest receivable | (61,419) | (168,963) |
| Prepaid expenses | 9,283 | (6,748) |
| Accounts payable | (345,427) | 713,600 |
| Accrued interest payable | 107,499 | 52,377 |
| Accrued pension liability | 129,824 | 128,094 |
| | (911,101) | (203,510) |
| **Cash Flows from Financing Activities** | | |
| (Increase) decrease - Due from the Province of Manitoba | 134,552 | (76,060) |
| Increase (decrease) - Advance by the Province of Manitoba | (213,702) | (123,627) |
| Subsidy - Province of Manitoba | 1,514,456 | 1,514,160 |
| | 1,435,306 | 1,314,473 |
| **Cash Flows from Investing Activities** | | |
| Loans receivable, net of repayments | (239,977) | (3,563,826) |
| Purchase of capital assets | (96,822) | (4,385) |
| Property held for resale | 366 | 148,929 |
| Trust deposits | (273,571) | 1,322,192 |
| | (610,004) | (2,097,090) |
| **Net decrease in cash and cash equivalents** | (85,799) | (986,127) |
| **Cash and cash equivalents, beginning of year** | 633,038 | 1,619,165 |
| **Cash and cash equivalents, end of year** | $ 547,239 | $ 633,038 |
| **Represented by** | | |
| Cash | $ 266,042 | $ 625,411 |
| Trust deposits - Province of Manitoba | 281,197 | 7,627 |
| | $ 547,239 | $ 633,038 |
| **Supplementary Information** | | |
| Interest paid | $ (1,199,851) | $ (1,097,000) |
| Interest received | 2,180,387 | 2,402,841 |

# SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

March 31, 2008

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported period. Actual results may differ from those estimates. The significant accounting policies used in these financial statements are as follows:

**Loans Receivable**

Loans are carried at the unpaid principal plus accrued interest, less allowances for doubtful loans. Loans considered uncollectible are written-off. Recoveries on loans previously written-off are taken into income.

**Allowance for Doubtful Loans**

**Business Loan Program -**

The loans are reviewed quarterly to assess potential impairment or loss of value. Impaired loans are defined as those which are greater than two payments in arrears and for which the value of realizable security is less than the value of the loan outstanding. In these cases, a "specific" allowance is accrued equal to the value of the potential security shortfall or impairment. In all other cases, including loans that are both current and for which there is excess security value, a "non-specific" allowance equal to 5% of the outstanding loan balance is recorded.

**Fisheries Loan Program -**

The allowance for doubtful loans on fisheries loans and interest receivable is calculated based on the present value of future cash flows for those loans which, if they maintain their past payment history, will fail to retire their debt completely within the agreed term. The net present value ("NPV") formula used for calculating the allowance for doubtful loans is recognized by the Canadian Institute of Chartered Accountants, however, it does not account for closure of a fishery or regulated reduction of production. In the event of the closure of a fishery or regulated reduction of production, the NPV formula may not adequately provide for doubtful loans.

**Revenue Recognition**

Interest on loans is recorded as income on an accrual basis except for loans which are considered impaired. When a loan becomes impaired, recognition of interest ceases when the carrying amount of the loan (including accrued interest) exceeds the estimated realizable amount of the underlying security. The amount of initial impairment and any subsequent changes are recorded through the provision for doubtful loans as an adjustment of the specific allowance.

**Pension Expense and Obligation**

The employees of the Fund are not members of the Civil Service of the Province of Manitoba but they contribute to, and are pensionable under, the Civil Service Superannuation Fund. In accordance with the provisions of the Manitoba Civil Service Superannuation Act, the Fund will contribute 50% of the pension payments made to retired employees. The current pension expense consists of the employer's share of pension benefits paid to retired employees, as well as the increase in the unfunded pension liability during the fiscal year. This liability is determined actuarially every three years with the balances for the intervening years being determined by a formula provided by the actuary. The most recent actuarial valuation as at December 31, 2004 indicated the accrued liability is in line with the obligation forecast in the report.

In fiscal years prior to 1989, the Fund charged to operations contributions to the Manitoba Civil Service Superannuation Fund which amounted to 50% of the pension payments made to retired employees. Beginning in the 1989 fiscal year, the Fund has recorded a provision to fund current service obligations.

The total liability as at March 31, 2008 amounts to $1,895,420 (2007 - $1,765,596).

**Capital Assets**

Capital assets are stated at cost less accumulated amortization. Amortization based on the estimated useful life of the asset is calculated on a straight-line basis as follows:

| | |
|---|---|
| Office furniture and equipment | 10 - 30% |

**Financial Instruments**

The Fund recognizes and measures financial assets and financial liabilities on the Statement of Financial Position when they become a party to the contractual provisions of a financial instrument. All transactions related to financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, loans and receivables, held-to-maturity, available for sale or other financial liabilities.

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or asking prices as appropriate, in the most advantageous active market for that instrument to which the Fund has immediate access.

Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discounted rates. In determining those assumptions, external readily observable market inputs including interest rate yield curves, currency rates and price and rate volatilities are considered, as applicable.

Transaction costs for financial instruments are capitalized and then amortized over the term to the instrument using the effective interest rate method.

The Fund's financial instruments consist of cash, trust deposits, accounts receivable, loans receivable, accounts payable and amounts due to (from) the Province of Manitoba.

The Fund classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired. The Fund's accounting policy for each category is as follows:

***Loans and Receivables*** - These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They arise principally through the provision of goods and services (accounts receivable), but also incorporate other types of contractual monetary assets (loans). They are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment.

***Held-for-trading*** - This category is comprised of cash. Cash is carried in the balance sheet at fair value.

***Other Financial Liabilities*** - Other financial liabilities include all financial liabilities other than those classified as held-for-trading and comprises trade accounts payable and advance by the Province of Manitoba. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method.

The financial risk is the risk to the Fund's revenues that arise from fluctuations in interest rates and

degree of volatility of these rates. The Fund has established policies to manage its exposure to fluctuating interest (referred to as interest rate risk).

The Fund is exposed to credit risk that arises from the collection of loans receivable and realization of property held for resale.

All financial instruments are denominated in Canadian dollars.

The Fund does not participate in derivative financial instrument trading or foreign exchange transactions.

## RECENT ACCOUNTING PRONOUNCEMENTS

Recent accounting pronouncements that have been issued but are not yet effective, and have a potential implication for the Fund, are as follows:

### Financial instruments - disclosures and presentation

CICA Handbook Section 3862, Financial Instruments - Disclosure, increases the disclosures currently required to enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. CICA Handbook Section 3863, Financial Instruments - Presentation, replaces the existing requirements on the presentation of financial instruments, which have been carried forward unchanged. These standards are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. The Fund is currently evaluating the impact of the adoption of these changes on the disclosure and presentation within its financial statements.

### International Financial Reporting Standards

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The impact of the transition to IFRS on the Fund's financial statements has yet to be determined.

## 1. NATURE OF THE FUND

The Communities Economic Development Fund was established in 1971 (Ch. C155) as a Crown Corporation to encourage the optimum economic development of remote and isolated communities within the Province of Manitoba. With an act revision passed in July, 1991, the objective of the Fund was set to encourage economic development in Northern Manitoba, to act as a lending authority in the fishing industry in the Province of Manitoba and to provide financial assistance to Aboriginal people in the Province outside the City of Winnipeg. The Business and Fisheries Loan Programs are administered under the C.E.D.F. Act.

## 2. CHANGE IN ACCOUNTING POLICY

On April 1, 2007, the Fund retrospectively adopted, CICA Handbook Section 3861, "Financial Instruments - Disclosure and Presentation" and Section 3855, "Financial Instruments - Recognition and Measurement". Under these new standards, all financial instruments are included on the statement of financial position and are measured either at fair market value or, in limited circumstances, at cost or amortized cost.

In accordance with these revised standards, the organization has classified each of its financial instruments into the following accounting categories, effective April 1, 2007. The category for an item determines its subsequent accounting under the revised standards.

The adoption of these new standards had no material impact on the Fund's statement of financial position and statement of operations.

## 3. DUE FROM THE PROVINCE OF MANITOBA

Annually, the Province of Manitoba provides a grant to cover the Fund's anticipated subsidy requirements for the year. The amount of $1,970,351 (2007 - $2,104,903) represents additional funds needed to cover the actual requirements for the year including coverage for the pension liability. The balance is comprised of the following:

| | **2008** | 2007 |
|---|---|---|
| Department of Aboriginal and Northern Affairs | | |
| Subsidy (refundable) | $ (248,032) | $ 173,548 |
| Order in Council pending | 258,244 | 100,359 |
| Pension (unfunded) | 1,876,021 | 1,746,878 |
| Pension (funded) | 18,718 | 18,718 |
| Severance accrual (unfunded) | 65,400 | 65,400 |
| | $ 1,970,351 | $ 2,104,903 |

## 4. LOANS RECEIVABLE

| | 2008 | 2007 |
|---|---|---|
| **Business Loan Program** | | |
| - Interest rates applied range from 4.125% to 5.5% | | |
| Principal | $ 11,849,346 | $ 12,495,516 |
| Accrued interest | 700,878 | 790,175 |
| | 12,550,224 | 13,285,691 |
| Allowance for doubtful loans (Note 8) | 2,019,245 | 1,739,027 |
| | 10,530,979 | 11,546,664 |
| **Fisheries Loan Program** | | |
| - Interest rates applied range from 4.125% to 5.25% | | |
| Principal | 12,665,450 | 12,042,494 |
| Accrued interest | 1,091,302 | 940,432 |
| | 13,756,752 | 12,982,926 |
| Allowance for doubtful loans (Note 8) | 3,026,327 | 3,140,168 |
| | 10,730,425 | 9,842,758 |
| **TEAM Loan Program** | | |
| Principal | - | 3,755 |
| Accrued interest | - | 153 |
| | - | 3,908 |
| | $ 21,261,404 | $ 21,393,330 |

The following schedule provides the gross amount of loans together with the loan allowances:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Gross Loan Balances | Total Allowance | Gross Loan Balances | Total Allowance |
| Business Loan Program | | | | |
| Impaired | $ 2,340,180 | $ 447,558 | $ 2,340,180 | $ 553,631 |
| Performing | 10,210,042 | 1,571,687 | 10,945,512 | 1,185,396 |
| | 12,550,222 | 2,019,245 | 13,285,692 | 1,739,027 |
| Fisheries Loan Program | | | | |
| Impaired | $ 3,026,327 | $ 3,026,327 | $ 3,140,168 | $ 3,140,168 |
| Performing | 10,730,425 | - | 9,842,758 | - |
| | $ 13,756,752 | $ 3,026,327 | $ 12,982,926 | $ 3,140,168 |
| TEAM Loan Program | | | | |
| Impaired | $ - | $ - | $ 3,908 | $ - |

## 5. CAPITAL ASSETS

| | Cost | Accumulated Amortization | 2008 Net Book Value | 2007 Net Book Value |
|---|---|---|---|---|
| Office furniture and equipment | $ 138,308 | $ 125,152 | $ 13,156 | $ 14,834 |
| Land | 92,482 | - | 92,482 | - |
| Total | $ 230,790 | $ 125,152 | $ 105,638 | $ 14,834 |

## 6. COMMITMENTS

On December 20, 2007, the Fund entered into a contract to build a new office building. The building is to be completed by November 30, 2008 as outlined in the contract terms. The total cost associated with the building is $913,242.

**Loan Commitments**

| | 2008 | 2007 |
|---|---|---|
| Undisbursed balance of approved loans | $ 467,280 | $ 950,156 |

## 7. ADVANCE BY THE PROVINCE OF MANITOBA

| | 2008 | 2007 |
|---|---|---|
| Business Loan Program (Note 9) | $ 10,705,422 | $ 9,906,881 |
| Fisheries Loan Program (Note 9) | 10,118,183 | 11,130,426 |
| | $ 20,823,605 | $ 21,037,307 |

The Fund obtains capital for the purpose of carrying out its mandate of providing financial assistance in the form of loans and guarantees through loans provided by the Department of Finance. Term loans bear interest at the rates posted by the Department of Finance at time of issue. The Fund also has the option to draw funds on floating rates set periodically at the Royal Bank prime rate minus 3/4%. At year end, the Fund's instruments bore rates ranging from 4.10% to 5.75% with a weighted cost of capital of 4.56%.

## 8. ALLOWANCE FOR DOUBTFUL LOANS

The change in the allowance is accounted for as follows:

| | | | 2008 | 2007 |
|---|---|---|---|---|
| | Specific | Non-Specific | Total | Total |
| **Business Loan Program** | | | | |
| Balance, beginning of year | $ 1,185,396 | $ 553,631 | $ 1,739,027 | $ 1,441,646 |
| Provision for the year | 812,966 | (106,073) | 706,893 | 427,803 |
| | 1,998,362 | 447,558 | 2,445,920 | 1,869,449 |
| Loans written-off | (426,675) | - | (426,675) | (130,422) |
| Balance, end of year | $ 1,571,687 | $ 447,558 | $ 2,019,245 | $ 1,739,027 |
| **Fisheries Loan Program** | | | | |
| Balance, beginning of year | | | $ 3,140,168 | $ 2,949,198 |
| Provision for the year | | | - | 200,000 |
| | | | 3,140,168 | 3,149,198 |
| Loans written-off | | | (113,841) | (9,030) |
| Balance, end of year | | | $ 3,026,327 | $ 3,140,168 |
| **TEAM Loan Program** | | | | |
| Balance, beginning of year | | | $ - | $ 40,443 |
| Loans previously allowed for written-off | | | - | (40,443) |
| Balance, end of year | | | $ - | $ - |

The provision for fish loan losses recorded by the Fund exceeds the value derived by the net present value formula as at March 31, 2008 by $266,810 (2007 - $555,574).

| | 2008 | 2007 |
|---|---|---|
| Loan Loss Provision | | |
| Per accounts | $ 3,026,327 | $ 3,140,168 |
| Per net present value calculation | (2,759,517) | (2,584,594) |
| | $ 266,810 | $ 555,574 |

The commercial fishing industry is cyclical in nature and as a result, no adjustment has been made to the loan loss provision as at March 31, 2008.

## 9. LOAN PROGRAMS

**Business Loan Program**

The Communities Economic Development Fund is included under the Province of Manitoba's Loan Act Authority. Advances from the Province of Manitoba bear interest at rates established by the Minister of Finance pursuant to "The Loan Act, 2007". The advances are repayable at any time in whole or in part at the option of the Lieutenant Governor in Council.

Advances from the Business Loans Program are accounted for as follows:

| | **2008** | 2007 |
|---|---|---|
| Advances, beginning of year | $ 11,737,235 | $ 11,832,828 |
| Loan advances | 1,687,381 | 1,759,488 |
| Loan advance repayments | (406,925) | (1,724,659) |
| Loan write-offs | (130,422) | (130,422) |
| | 12,887,269 | 11,737,235 |
| Unfunded allowance, beginning of year | 1,830,354 | 1,504,410 |
| Provision for doubtful loans | 706,893 | 427,803 |
| Write-offs (Order in Council approved) | (355,400) | (101,859) |
| | 2,181,847 | 1,830,354 |
| Net balance, end of year (Note 7) | $ 10,705,422 | $ 9,906,881 |

**Fisheries Loan Program**

Advances to the Fisheries Loan Program are accounted for as follows:

| | **2008** | 2007 |
|---|---|---|
| Advances, beginning of year | $ 14,279,620 | $ 13,781,710 |
| Loan advances | - | 337,179 |
| Loan advance repayments | (1,012,243) | 169,763 |
| Loan (write-offs) | (27,242) | (9,032) |
| | 13,240,135 | 14,279,620 |
| Unfunded allowance, beginning of year | 3,149,194 | 2,949,194 |
| Provision for doubtful loans | - | 209,032 |
| Write-offs (Order in Council approved) | (27,242) | (9,032) |
| | 3,121,952 | 3,149,194 |
| Net balance, end of year (Note 7) | $ 10,118,183 | $ 11,130,426 |

## 10. LOAN ACT AUTHORITY

Amounts authorized for advances under "The Loan Act, 2007" are as follows:

| | 2008 |
|---|---|
| Per Schedule A of "The Loan Act, 2007" | $ 4,600,000 |
| Per Schedule B of "The Loan Act, 2006" | 9,999,911 |
| Direct loans | 14,599,911 |
| Advances made during the fiscal year | 6,450,000 |
| Unused Loan Act capital available | $ 8,149,911 |

## 11. ECONOMIC DEPENDENCE

The ongoing operations of the Communities Economic Development Fund depends on obtaining adequate financing and funding. The Fund is dependent upon the Province of Manitoba for funding of operations.

## 12. CONTINGENCY

The Fund has been named as a defendant in a statement of claim. At the time of preparation of these financial statements, the outcome of this claim is not determinable and, accordingly, no provision for settlement (if any) has been recorded in these financial statements. Settlement amounts (if any) will be charged to operations in the year of settlement.

# SCHEDULE OF OPERATING EXPENDITURES

| For the year ended March 31 | **2008** | 2007 |
|---|---|---|
| Amortization of capital assets | $ 6,019 | $ 6,703 |
| Building design and permits | 62,986 | - |
| Collection costs | 35,811 | 67,761 |
| Communications | 44,277 | 48,818 |
| Credit reports | 1,986 | 2,255 |
| Directors' fees and expenses | 56,616 | 66,445 |
| Government vehicles | 31,598 | 43,956 |
| Insurance | 1,535 | 1,432 |
| Legal costs | 5,582 | 13,816 |
| NFDC | 19,898 | - |
| Office supplies and expenses | 19,687 | 18,425 |
| Pension | 180,609 | 172,772 |
| Professional fees | 25,500 | 27,235 |
| Rent and utilities | 97,062 | 94,598 |
| Salaries and benefits | 934,967 | 974,320 |
| Sundry | 20,570 | 18,536 |
| TEAM | 23,635 | 23,722 |
| Travel | 60,859 | 55,882 |
| | $ 1,629,197 | $ 1,636,676 |

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